

Speech by Joan Burton TD, Minister for Social Protection

Speaking at FEASTA: The Foundation for the Economics of Sustainability

"National Strategies for dealing with Ireland's debt crisis: Exploring the options"

"MABS and Mortgage Debt"

Good afternoon everyone. Thank you so much for inviting me here today to open your conference on National Strategies for Dealing with Ireland's Debt Crisis: Exploring the Options.

I do not need to explain to an audience such as this the depth of the economic crisis in which we find ourselves. You know only too well that the previous government presided over economic and banking policies that resulted in the country signing up to exceptionally onerous bailout terms.

This new government is working hard to restore our economic sovereignty. Once the banks had been recapitalised, we secured interest rate reductions on the funds we borrowed from the Troika, a move which should help ease the cost of repaying the country's debt burden over time.

The NTMA has estimated that the changes in the EU, IMF and bilateral loans will mean savings to the state in excess of €10 billion over the lifetime of the loans.

The thing that is different about this recession is that it is not just about high unemployment but also about the high personal debt burden that many citizens are shouldering. This is preventing people becoming economically active.

The government wants to tackle the personal debt burden being carried by ordinary people. We are particularly concerned that the enormous mortgage and personal debt problem will act as a drag on the economy for years to come unless we tackle the issue as a matter of urgency.

The problem of mortgage arrears continues to grow.

Figures published by the Central Bank last month also showed a deteriorating position.

The figures showed that 7.2 per cent of private residential mortgage accounts are in arrears for more than 90 days compared with 6.3 per cent in arrears for more than 90 days at the end of March.

Figures published by credit rating agency Moodys earlier this week gave even greater cause for concern.

What the figures have in common is that they show the mortgage arrears problem isn't going away anytime soon.

I know that your conference organiser, Emer O'Siochru, is very concerned that private household debt is a real worry for many and that it is also a barrier to a future economic recovery. And I agree with Emer's assertion that easing that debt burden is currently a drain on our social protection services.

My Department is currently spending about €77 million a year on Mortgage Interest Supplement, in effect subsidising the mortgages of more than 18,500 struggling borrowers who have turned to us for help. We are picking up the tab for a share of those borrowers' debt burden; and the money we pay goes directly to the banks.

We also spend more than €500 million a year on rent supplements for 100,000 people who cannot afford to house themselves.

Combined, we spend almost €600 million which ultimately goes to the banks and buy to let landlords.

It is often said that "debts that cannot be repaid will not be repaid". While I agree wholeheartedly, the problem is finding out who cannot repay and who simply will not repay.

The government has ruled out blanket mortgage forgiveness, but we are currently looking at how best to resolve the mounting mortgage arrears problem on a case by case basis. The challenge for government is the creation of a framework in which the borrower and the lender come together to resolve the issues.

As you know, the Programme for Government commits to examining using the Money Advice and Budgeting Service (MABS) as the vehicle to provide a Personal Debt Management Agency with quasi judicial powers.

MABS Overview

The Money Advice and Budgeting Service (MABS) assists people who are over-indebted and need help and advice in coping with debt problems.

The role of money advisers is to help clients to assess their financial situation, make a budget plan and deal with creditors.

There are 52 independent MABS companies operating the local MABS services from 65 locations throughout the country. The Citizens Information Board has been allocated a budget of €18.3 million for MABS this year.

MABS provides an excellent service to its customers, many of them low income customers or people living on social welfare payments.

Total Amount Owed

At the end of August, the total amount owed by MABS's new clients to creditors amounted to €314.4 million with, the bulk of it (72 per cent) to banks and financial institutions.

However, MABS is increasingly being asked to handle problems that it was not originally designed to cater for, notably customers with large mortgage and personal debts, some of them who would have previously considered themselves comfortably off.

Experiences of MABS clients in Debt

Waterford MABS commissioned research to document the difficulties that MABS clients are experiencing in relation to mortgage arrears.

Dr Michelle Norris, UCD and Simon Brooke, housing policy consultant, looked at the impact of a range of interventions on clients -- including policy measures to assist those experiencing mortgage difficulties and the impact of the money advice process on the outcomes for the client.

The research examined 50 MABS clients (43 households) across the country who were experiencing mortgage repayment problems. Interviewees fell broadly into three groups:

- People experiencing short-term repayment difficulties, due to illness, difficulties with other debts, or short-term unemployment.
- People needing medium-term help (five to seven years) because they have to retrain in order to gain employment, but have a good prospect of paying their mortgage if they do so. Unsurprisingly there were many former construction workers in this category.
- People whose mortgages are non-viable. That is, they are unlikely to ever pay off their mortgage: because they shouldn't have been given a mortgage in the first place; because their employment prospects are poor due to age or illness; or because they have many large additional debts.

There were high levels of multiple indebtedness characterised by unsecured debts which had in many cases being consolidated into debts secured against property. The key driver of arrears was a reduction in income following loss of employment or failure of self-employment. Interviewees reported an improvement in the quality of service provided by lenders to households in arrears with lenders now more willing to negotiate forbearance arrangements. Experience of dealing with lenders of unsecured debt, such as credit cards, personal loans and overdrafts prior to coming to MABS were generally more negative than the experience of interacting with mortgage lenders.

Reform MABS or set up a new agency

The government is currently examining whether MABS as currently constructed is capable of helping those customers with large mortgage debts, whether it needs to be restructured or whether a new personal debt management service needs to be established within the Citizens Information Board structure.

I have recently beefed up the expertise on the Citizens Information Board with the appointment of Eugene McErlean, a former group internal auditor of AIB, who is best known for having been scapegoated for uncovering the overcharging issue at the bank. I am hoping that given his background as an honourable banker, he will be a resource on which the Board can draw when assessing the path forward.

As you know, there is a group of officials which is looking at this issue in depth for my colleague, Finance Minister Michael Noonan. I have suggested that the group should examine setting up a Personal Debt Management Service along the lines of the Credit Review Office which deals with complaints from small businesses who have been refused credit by the banks.

I see this as one part of a whole-of-government solution to the personal debt crisis which must also include a speedy reform of the bankruptcy regime.

I am concerned that any Personal Debt Management Service can have only limited success unless its launch coincides with the availability of a reformed bankruptcy regime. I am also seeking clarity on the extent to which the service could deal with clients who have multiple debts on top of their mortgage debts.

I would also like to see that the banks, which have been recapitalised at enormous cost to the taxpayer, are forced to deal in a fair and reasonable manner with customers who have got in to trouble, often as a result of reckless lending by those very same banks.

I want to ensure that the banks use the funds which they have been allocated at enormous cost to this country to contribute to the problem of resolving the heavy mortgage debt burden which is the legacy of their reckless lending spree.

To sum up, it is important that if people are to become economically active again that they are helped resolve their financial problems.

I recognise many of the faces here in the room. Your conference could not be more timely. We must move speedily to resolve the excessive debt burden under which many in our society are labouring. I wish you luck in exploring the alternative strategies that Ireland could adopt to deal with its unprecedented debt crisis. Thank you for your attention.

Ends

22nd September 2011